

Message Text

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ACTION AF-08

INFO OCT-01 ARA-06 EUR-12 EA-07 NEA-10 ISO-00 ERDA-05
AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00 EB-07
FPC-01 H-01 INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01
PM-04 USIA-06 OES-06 SP-02 SS-15 STR-04 TRSE-00
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P R 171518Z DEC 76
FM AMEMBASSY LAGOS
TO SECSTATE WASHDC PRIORITY 8292
INFO AMEMBASSY ABU DHABI
AMEMBASSY ALGIERS
USINT BAGHDAD
AMEMBASSY BEIRUT
AMEMBASSY CARACAS
AMEMBASSY JAKARTA
AMEMBASSY JIDDA
AMEMBASSY KUWAIT
AMEMBASSY LIBREVILLE
AMEMBASSY LONDON
AMEMBASSY QUITO
AMEMBASSY TEHRAN
AMEMBASSY TRIPOLI
AMEMBASSY VIENNA

C O N F I D E N T I A L LAGOS 14108

E.O. 11652: GDS
TAGS: ENRG, NI
SUBJECT: ASSESSMENT OF NIGERIAN CRUDE OIL PRODUCTION CAPACITY

REF: (A) STATE 273906 (B) LAGOS 12521

SUMMARY: NIGERIA'S CRUDE OIL PRODUCTION CAPACITY NOW LOWER
THAN COMMONLY ASSUMED DUE TO LACK OF NEW INVESTMENT PAST YEAR
AND A HALF, COMBINED WITH NATURAL RESERVOIR DEPLETION. PEAK
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POTENTIAL MAY BE 2.4 MILLION BARRELS PER DAY (B/D), BUT
SUSTAINABLE OUTPUT PROBABLY NEARER 2.24 MILLION B/D. PRESENT
PRODUCTION ALREADY APPROACHING THIS LIMIT. REMAINING
RESTRICTIONS ON PRODUCTION MORE TECHNICAL THAN POLITICAL AND
THERE APPEARS LITTLE POSSIBILITY OF OBTAINING ADDITIONAL
PRODUCTION BY URGING THEIR REMOVAL. EVEN IF ANTICIPATED

NEW INCENTIVES REVIEVE INVESTMENT, SIGNIFICANT ADDITIONS TO PRODUCTION CAPACITY CANNOT RESULT BEFORE 1979. MEANWHILE, LACK OF ONGOING INVESTMENT AND PROGRESSIVE RESERVOIR DEPLETION WILL CONTINUE TO REDUCE PRODUCTION CAPACITY, PERHAPS TO 2 MILLION B/D. THIS WOULD AFFECT US NATIONAL INTEREST IN ACCESS TO CRUDE OIL IMPORTS. SINCE FEAR OF FURTHER NATIONQTRTATION MAY MAKE COMPANIES SLOW TO INVEST EVEN IF INCENTIVES ATTRACTIVE, SHOULD USG CONSIDER ACTION ENABLING OPIC OR OTHERS TO PROVIDE GUARANTEE OF COMPENSATION IN CASE OF NATIONALIZATION IN ORDER TO ENCOURAGE INVESTMENT IN AND HENCE AVAILABILITY OF NIGERIAN OIL? END SUMMARY.

1. DUE TO LACK OF INVESTMENT IN NEW PRODUCTION CAPACITY OVER THE PAST YEAR AND A HALF, TOGETHER WITH NATURAL RESERVOIR DEPLETION, NIGERIA'S ACTUAL CRUDE OIL PRODUCTION CAPACITY HAS BECOME XOMEWHAT LOWER THAN COMMONLY ASSUMED. MAXIMUM PEAK OUTPUT WHICH COULD BE PRODUCED FOR SHORT PERIOD IS PERHAPS 2.4 MILLION B/D. HOWEVER, SUSTAINABLE LEVEL OF PRODUCTION DURING FIRST HALF OF 1977 NOT LIKELY TO BE MORE THAN 2.24 MILLION B/D. PRESENT PRODUCTION (2.18 MILLION B/D PRELIMINARY FIGURE FOR NOVEMBER AND 2.20 MILLION B/D FORECAST FOR DECEMBER) IS ALREADY NEARING THIS LEVEL.

2. THOSE GOVERNMENT-IMPOSED RESTRICTIONS ON PRODUCTION WHICH STILL EXIST ARE TO A GREATER DEGREE THAN IN PAST BASED ON HONEST DIFFERENCES OF OPINION WITH THE OIL COMPANIES OVER TECHNICAL FACTORS RATHER THAN POLITICAL CONSIDERATIONS. THE FMG NEEDS REVENUE AND APPEARS TO HAVE BEEN TRYING IN CONFIDENTIAL

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RECENT MONTHS TO PUSH PRODUCTION AS HIGH AS POSSIBLE. THERE THUU APPEARS LITTLE INCREASE TO BE EXPECTED EVEN IF FMG WERE TO REMOVE PRODUCTION RESTRICTIONS.

3. NEW FMG INCENTIVES DESIGNED TO BOOST INVESTMENT WERE PROMISED IN OCTOBER 1976, BUT MAY NOT BE ANNOUNCED UNTIL APRIL 1977 OR LATER. AS IT WILL TAKE 18 TO 24 MONTHS TO DEVELOP AND PUT INTO PRODUCTION FIELDS ALREADY DISCOVERED, IT WULL BE 1979 BEFORE ANY SIGNIFICANT ADDITIONS CAN BE MADE TO NIGERIAN PRODUCTION CAPACITY (AND BY IMPLICATION TO US IMPORTS) EVEN IF THE NEW INCENTIVES ARE HIGHLY ATTRACTIVE. IN THE MEANTIME, WITH INVESTMENT PROJECTS COMMITTED IN 1974/75 COMPLETED AND NO SIGNIFICANT NEW ONES UNDERWAY, IT APPEARS THAT BY 1979 NATURAL RESERVOIR DEPLETION WILL HAVE REDUCED NIGERIA'S PRODUCTION CAPACITY TO PERHAPS AS LITTLE AS 2 MILLION B/D.

4. EVEN IF FMG OFFERS SUBSTANTIALLY MORE GENEROUS INCENTIVES, NIGERIA'S POLITICAL INSTABILITY, MUDDLED PETROLEUM POLICY OF PAST TWO YEARS, AND FEAR OF FURTHER NATIONALIZATION WILL MAKE COMPANIES SLOW AND CAUTIOUS IN COMMITTING THEMSELVES TO NEW INVESTMENT. WHILE SOME COMPANIES ARE CRUDE-HUNGRY AND LIKELY TO PLUNGE AHEAD, A GENERALLY CAUTIOUS COMPANY APPROACH COULD MEAN THAT NIGERIAN PRODUCTIVE CAPACITY WOULD NOT INCREASE EVEN IN 1979/80.

5. GIVEN THE US NEED FOR CRUDE OIL IMPORTS, AND, AS FAILURE TO INVEST OUT OF FEAR OF NATIONALIZATION MIGHT MAKE THAT FEAR A SELF-FULFILLING PROPHECY, WASHINGTON AGENCIES MAY WISH TO EXAMINE THE POSSIBLE DESIRABILITY OF SOME USG ACTION TO ENCOURAGE US OIL COMPANIES TO MOVE AHEAD RAPIDLY WITH INVESTMENT IN NIGERIA IF FMG COMES OUT WITH A REASONABLE INCENTIVES PACKAGE. CRUX OF MATTER IS FINANCIAL RISK; DEPARTMENT MAY WISH CONSIDER CONFIDENTIAL

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WHETHER SOME MIX OF INVESTMENT INSURANCE (OPIC, USG OR PRIVATE) MIGHT BE DESIRABLE (AND POLITICALLY PRACTICABLE) TO ASSURE OIL COMPANIES A FAIR COMPENSATION IN CASE OF NATIONALIZATION. WOULD WELCOME WASHINGTON VIEWS.

6. COMPANY BY COMPANY PRODUCTION CAPACITY ASSESSMENT AND RESPONSES TO OTHER QUESTIONS RAISED IN PARAGRAPHS 4A THROUGH 4H OF REFTEL A FOLLOW SEPARATELY BY AIRGRAM. EASUM

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